

MINUTES OF THE JANUARY 9, 2012, COMPENSATION AND HUMAN RESOURCES COMMITTEE MEETING

The Compensation and Human Resources Committee (“the Committee”) of the Smithsonian Institution Board of Regents held a meeting on January 9, 2012, beginning at 11:00 a.m. at the Smithsonian Institution Building in Washington, D.C. Participating were Committee Chair Roger Sant and members Representative Xavier Becerra*, John McCarter, and Patricia Stonesifer. Senator Thad Cochran was unable to participate.

Also present were Secretary G. Wayne Clough, Chief of Staff to the Secretary Patricia Bartlett, Associate Director of the Office of Human Resources (OHR) Gregory R. Bettwy, Director of OHR James D. Douglas, Under Secretary for Finance and Administration/Chief Financial Officer Albert Horvath, Chief of Staff to the Regents John K. Lapiana, General Counsel Judith Leonard, and PricewaterhouseCoopers (PwC) consultants Bruce Clousure*, Dena Fachio*, and Heather O’Neal*.

CALL TO ORDER AND APPROVAL OF MINUTES

Mr. Sant called the meeting to order at 11:00 am. The Committee approved the draft minutes of the September 26, 2011, meeting without modification.

Mr. Sant began the meeting by noting that, although the Federal pay freeze obviated a number of decisions and recommendations usually made by the Committee, a number of important issues would still benefit from Committee actions and deliberations.

CORPORATE BOARD SERVICE POLICY

Mr. Sant said that the Executive and Governance and Nominating committees had asked that the Committee provide input on a proposed liberalization of the prohibition against corporate board service by senior executives. He noted concerns that the current prohibition may impair Smithsonian recruitment efforts, as well as its ability to retain current executives. Ms. Leonard provided an overview of the practices of relevant peer organizations and the Committee observed that the Smithsonian appeared to have the strictest policy. The Committee discussed the possible applicability of the Federal government’s policy, which limits the prohibition on corporate board service to “Schedule C” political appointees but allows such service by other civil servants.

Dr. Clough suggested that, if the policy were modified, the change be limited to museum directors before later including members of the Secretary’s cabinet. Ms. Stonesifer said that, if made, the change should be applied to all senior level executives. She also said that the policy should only be modified if it explicitly contemplated service on “no more than X” number of boards and provided for real consultation that the executive’s workload could accommodate any additional work. Members noted that service on outside boards not only provides for

* *participated by teleconference*

additional compensation but, more importantly, is a vehicle for leaders to learn new methods and make connections with individuals and organizations who could support the Smithsonian. Ms. Leonard noted that any proposed board service would be reviewed closely on a case-by-case basis to ensure no conflicts of commitment or interest exist.

Mr. Sant said that he would relay the sense of the Committee to the Executive and Governance and Nominating committees, stating that it supported permission for all senior executives to serve on up to one corporate board, subject to rigorous legal and supervisory review.

COMPENSATION FREEZES AND AWARD LIMITS

Mr. Sant noted that executive salaries remain frozen for both Federal and Trust executives: Federal by law and Trust by the Regents' decision to apply the Federal approach. Awards, performance incentives, commissions, and recruitment incentives are all permitted within established limits, although retention incentives continue to be frozen.

On the Federal side, he said, all recommended awards being presented to the Committee were within the Office of Management and Budget (OMB) guidelines (the lower of 5 percent or the aggregate fiscal year 2010 awards). For Trust senior staff, the aggregate of proposed awards were limited to 5 percent of an individual's total salary, consistent with OMB guidelines.

After further discussion, the Committee endorsed the Secretary's proposed approach.

COMPENSATION RECLASSIFICATION OF TWO POSITIONS

Mr. Sant explained that in 2008 the Committee classified 38 positions that had been market-based (for compensation purposes) as Federal equivalents. Dr. Clough requested that the Committee reconsider the classification of two positions: the Director of Smithsonian Institution Libraries and the Chief Financial Officer for Smithsonian Enterprises. Consequently, Mr. Sant requested that outside independent consultants PwC conduct appropriate market research to support the Committee's consideration of the Secretary's request.

2012 COMPENSATION PROCESS

Mr. Sant began the discussion of the 2012 compensation process by reminding members of their duties as a compensation review board for a not-for-profit organization. This requires full disclosure of any real or perceived conflicts of interest with any of the Smithsonian executives for whom pay will be determined. All members verified that they had none.

After reviewing summary statistics on the Smithsonian's executive workforce, including compensation and its composition, Mr. Sant noted that every other year the Smithsonian conducts a new compensation survey. Because that last occurred in 2010, the data provided to the Committee was "aged" (3 percent) by PwC. A new survey will be conducted to support the 2013 compensation process.

Mr. Sant began the review process by first advising the Committee that the incentive payment program for the Office of Investments is now in its fourth year. Under the program, eligible employees may, in addition to their base compensation, receive a payment based on two parts: the actual performance of the portfolio compared to applicable benchmarks (quantitative) and the employee's performance appraisal as determined by their supervisor (qualitative).

Mr. Clousure noted that PwC updated the data on compensation for staff carrying out the Smithsonian's investment functions, including its benchmarking against peer institutions. He then guided the Committee through PwC's report, comparing the Smithsonian incentive compensation plan against those of its peers for each relevant position in the Office of Investments. The Committee discussed both components of the investment officers' compensation—base salary and incentive award—and how the two work together in making the Smithsonian appropriately competitive. Members observed that most of the peer institutions had endowments considerably higher than the Smithsonian's, which should be taken into account in any compensation discussion.

The Committee then reviewed the positions included in Tab B of the Committee's meeting materials. Compensation for these positions is determined by the Committee, which recommends its decisions for subsequent approval by the full Board of Regents. Because their positions were included in this list, Mr. Horvath, Mr. Lapiana, and Ms. Leonard did not participate in those portions of the review and left the meeting at the appropriate times.

The following motion was then approved:

VOTED that the Compensation and Human Resources Committee concurs with the Secretary's compensation recommendations for those positions in Tab B of the meeting materials and forwards them to the Full Board for final decision at the January 23, 2012, meeting.

EXECUTIVE SESSION

The Committee then went into Executive Session and discussed the Secretary's compensation. Members received a briefing from the Board Chair on the Secretary's performance for fiscal year 2011. A discussion followed, during which the Committee concluded that the proposed compensation is consistent with the recommendation of the Chair and with comparables provided by PwC. The Secretary declined a cash bonus. The following motion was approved.

VOTED that the Compensation and Human Resources Committee recommends to the full Board that the Secretary receive a 0 percent salary increase and a time-off award of 40 hours for 2012.

Dr. Clough returned to the meeting and briefed the Committee on the status of the remaining "grandfathered" executives whose salaries are scheduled to be reduced in January 2013 as part of the Institution's compensation reform.

The Committee adjourned the meeting at 1:10 p.m.

Respectfully submitted,

Patty Stonesifer (on behalf of then-Chair Roger W. Sant)
Chair